

# Comparative Advantage and Specialization

opportunity cost is here, too...



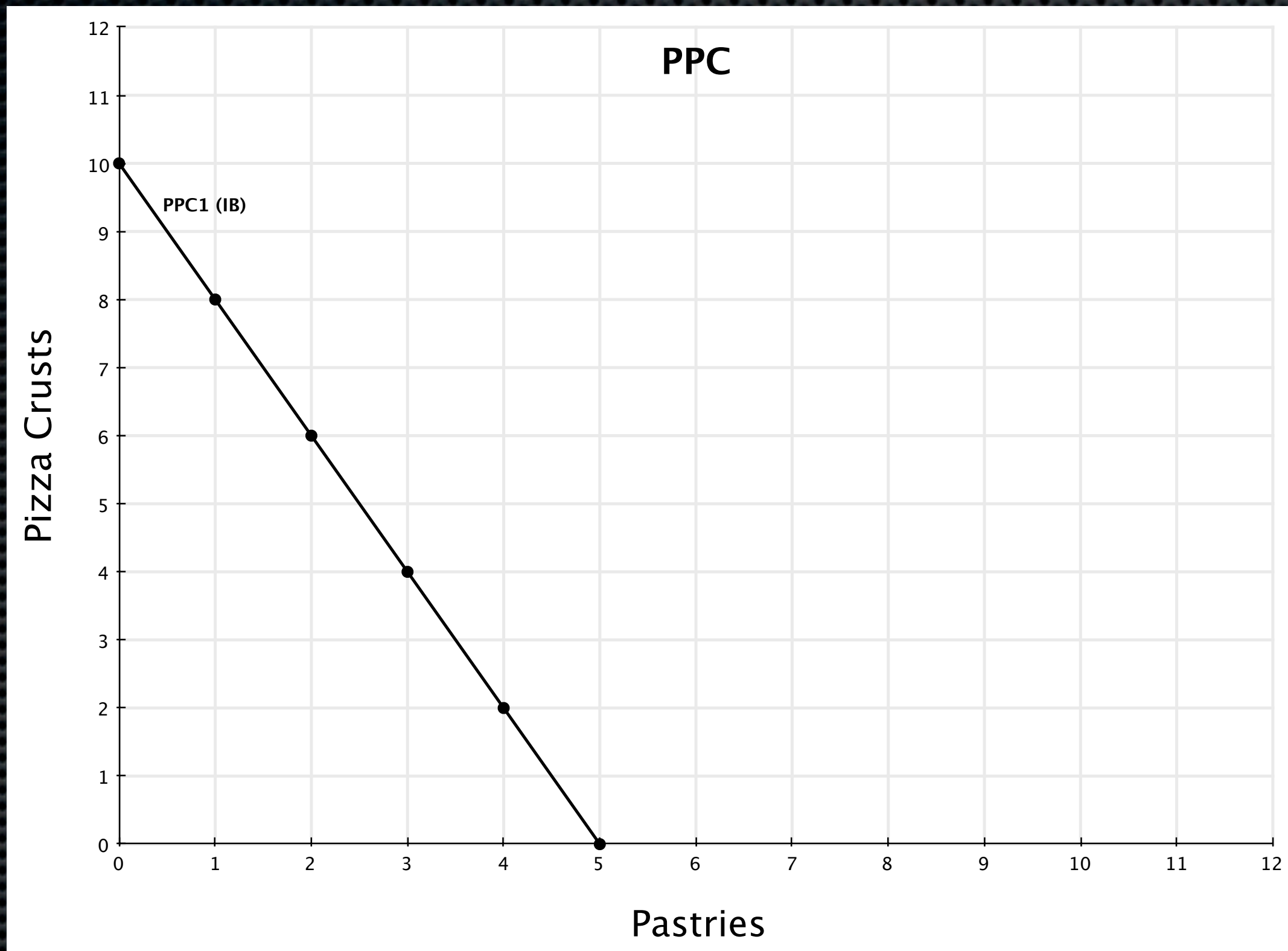
# Recall *Izzy's Bakery*

- The bakery can choose to produce pastries or pizza crust.



Izzy's Bakery	
Pastries	Pizza Crusts
0	10
1	8
2	6
3	4
4	2
5	0







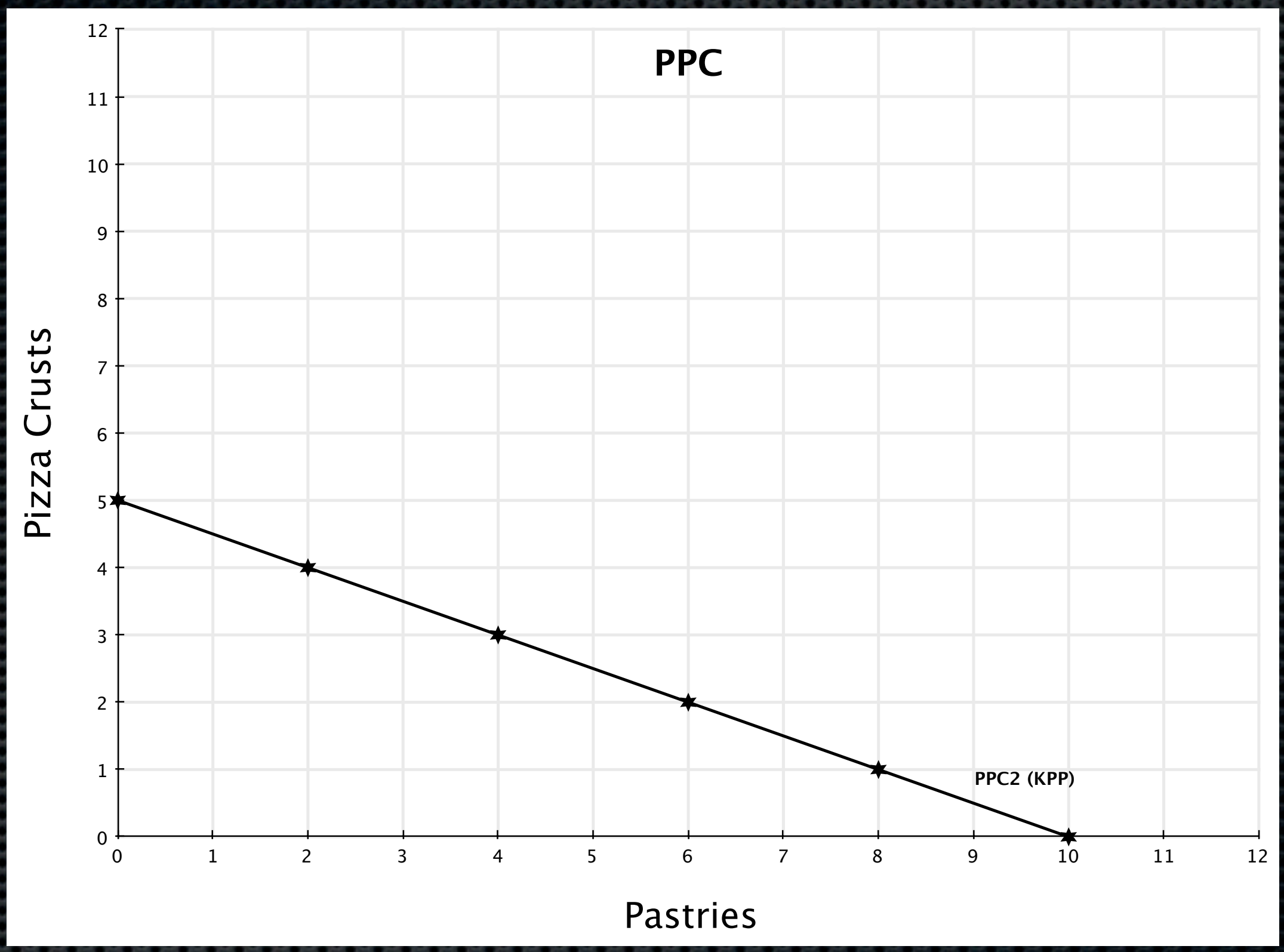
Here comes Kate's Pizza Parlor...

- Kate's Pizza Parlor can also choose to produce pastries or pizza crust.



Kate's Pizza Parlor	
Pastries	Pizza Crusts
10	0
8	1
6	2
4	3
2	4
0	5







Izzy's	
Pastries	Crusts
0	10
1	8
2	6
3	4
4	2
5	0

Kate's	
Pastries	Crusts
10	0
8	1
6	2
4	3
2	4
0	5



- ✦ **absolute advantage**: The ability to produce more of a good than all other producers.
- ✦ Kate's has the **absolute advantage** in pastries.
- ✦ Izzy's has the **absolute advantage** in crusts.



What are the opportunity costs for each business?

Izzy's	
Pastries	Crusts
0	10
1	8
2	6
3	4
4	2
5	0

Kate's	
Pastries	Crusts
10	0
8	1
6	2
4	3
2	4
0	5



# What are the opportunity costs for each business?

Izzy's	
Pastries	Crusts
0	10
1	8
2	6
3	4
4	2
5	0
Opportunity Costs	
1 pastry costs	1 crust costs

Kate's	
Pastries	Crusts
10	0
8	1
6	2
4	3
2	4
0	5
Opportunity Costs	
1 pastry costs	1 crust costs



# What are the opportunity costs for each business?

Izzy's	
Pastries	Crusts
0	10
1	8
2	6
3	4
4	2
5	0
Opportunity Costs	
1 pastry costs	1 crust costs
2 crusts	

Kate's	
Pastries	Crusts
10	0
8	1
6	2
4	3
2	4
0	5
Opportunity Costs	
1 pastry costs	1 crust costs



# What are the opportunity costs for each business?

Izzy's	
Pastries	Crusts
0	10
1	8
2	6
3	4
4	2
5	0
Opportunity Costs	
1 pastry costs	1 crust costs
2 crusts	1/2 pastry

Kate's	
Pastries	Crusts
10	0
8	1
6	2
4	3
2	4
0	5
Opportunity Costs	
1 pastry costs	1 crust costs



# What are the opportunity costs for each business?

Izzy's	
Pastries	Crusts
0	10
1	8
2	6
3	4
4	2
5	0
Opportunity Costs	
1 pastry costs	1 crust costs
2 crusts	1/2 pastry

Kate's	
Pastries	Crusts
10	0
8	1
6	2
4	3
2	4
0	5
Opportunity Costs	
1 pastry costs	1 crust costs
1/2 crust	



# What are the opportunity costs for each business?

Izzy's	
Pastries	Crusts
0	10
1	8
2	6
3	4
4	2
5	0
Opportunity Costs	
1 pastry costs	1 crust costs
2 crusts	1/2 pastry

Kate's	
Pastries	Crusts
10	0
8	1
6	2
4	3
2	4
0	5
Opportunity Costs	
1 pastry costs	1 crust costs
1/2 crust	2 pastries



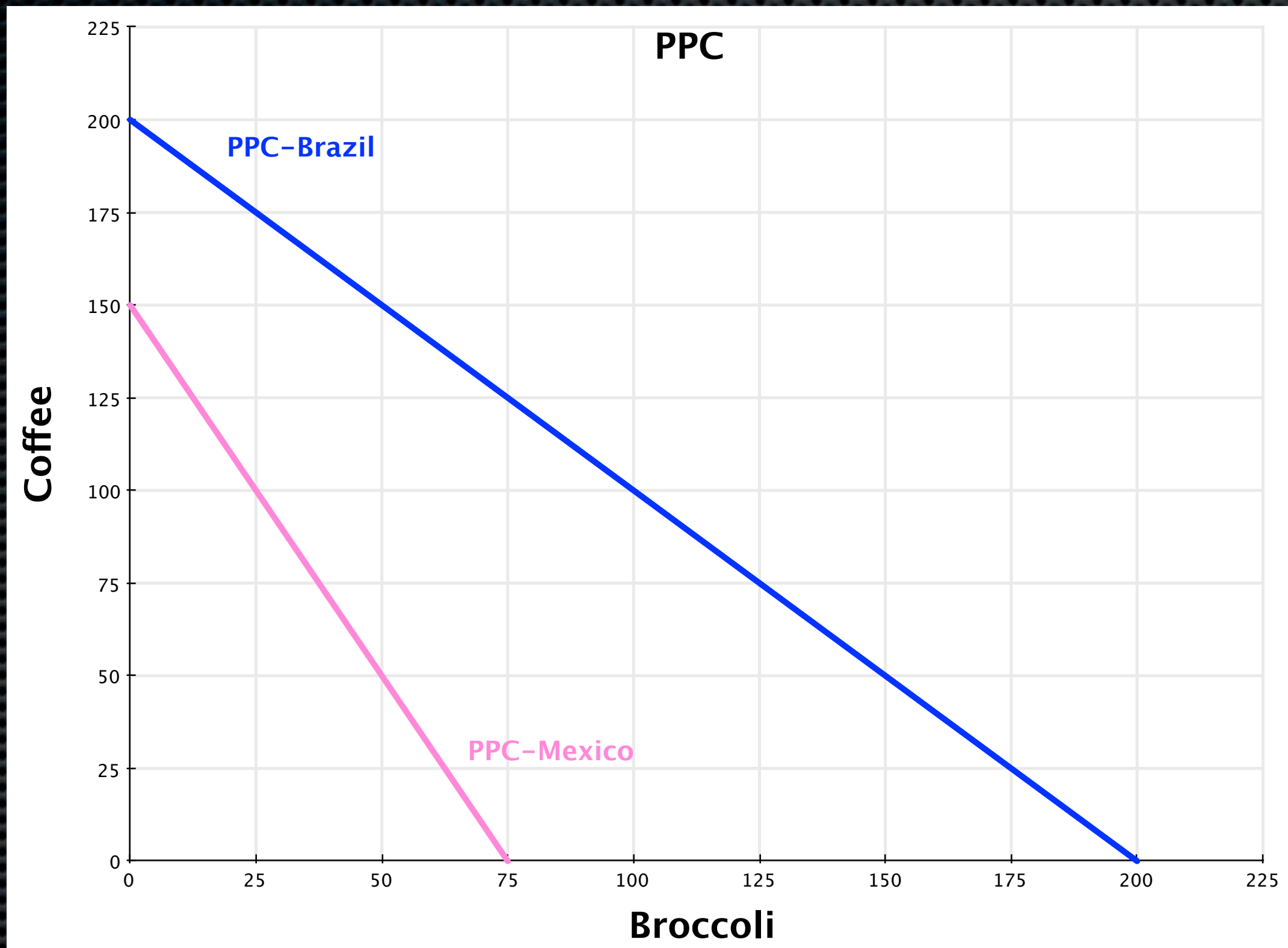
- ✦ **comparative advantage**: The ability to produce a good at a lower opportunity cost than all other producers.
- ✦ Kate's has the **comparative advantage** in pastries.
- ✦ Izzy's has the **comparative advantage** in crusts.
- ✦ Kate's should **specialize** by producing only pastries, and Izzy's should **specialize** by producing only crusts.
- ✦ This same principle explains why countries **specialize** and trade...



# Two countries...

- Brazil and Mexico produce coffee and broccoli.

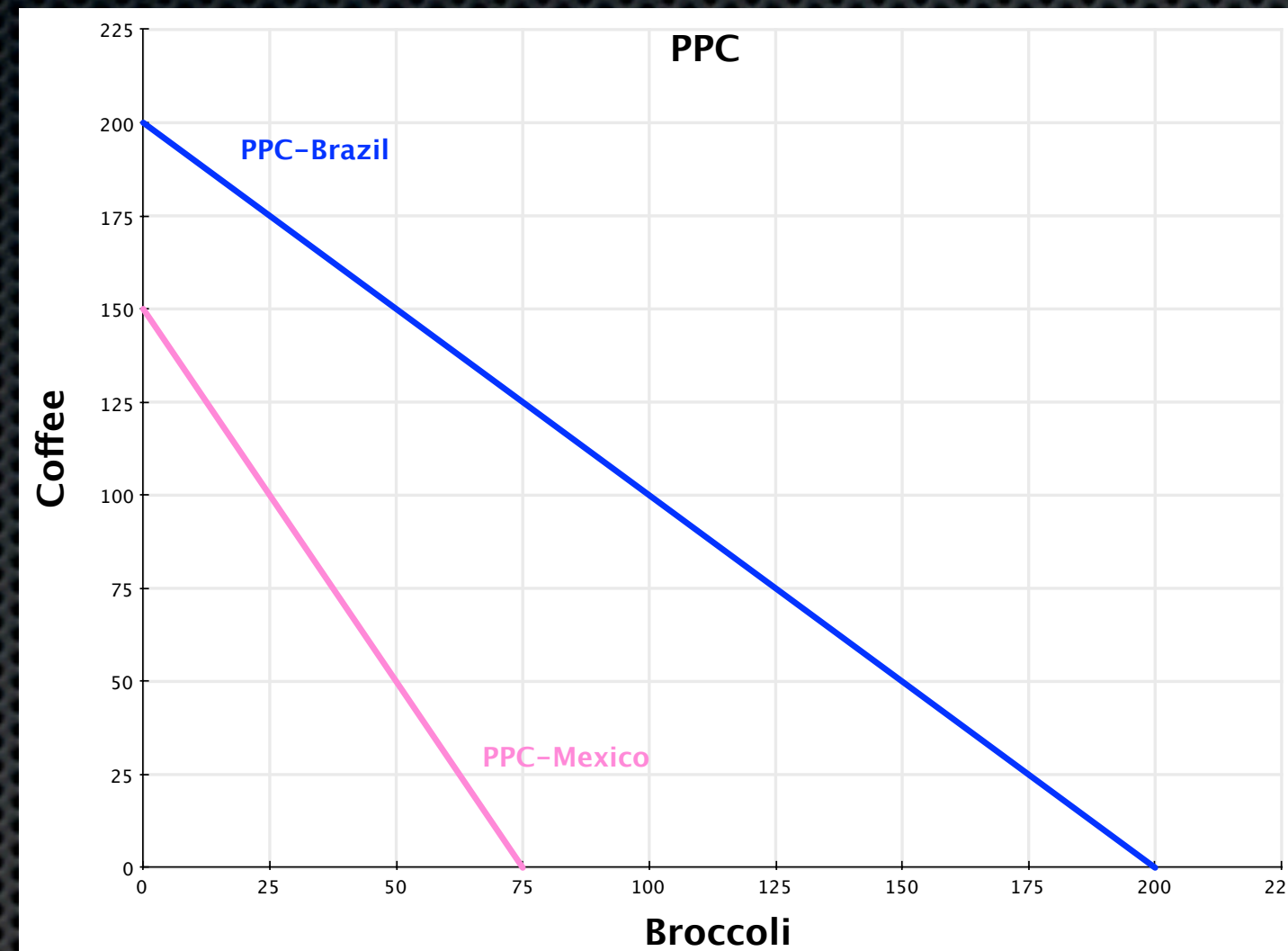






- ✦ Brazil has the ***absolute advantage*** in coffee and broccoli.





Brazil

Opportunity Costs

1 coffee costs

1 broccoli costs

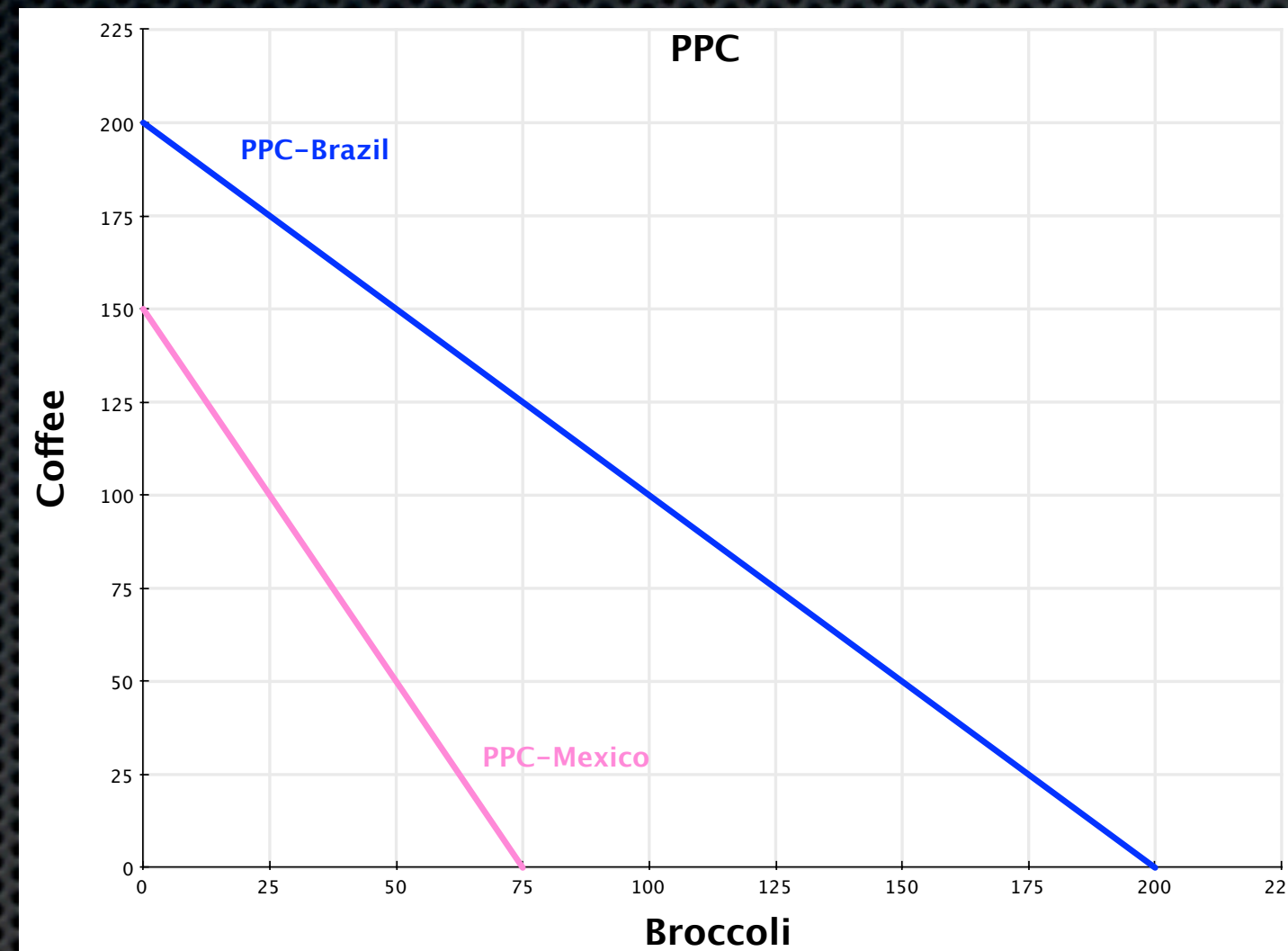
Mexico

Opportunity Costs

1 coffee costs

1 broccoli costs

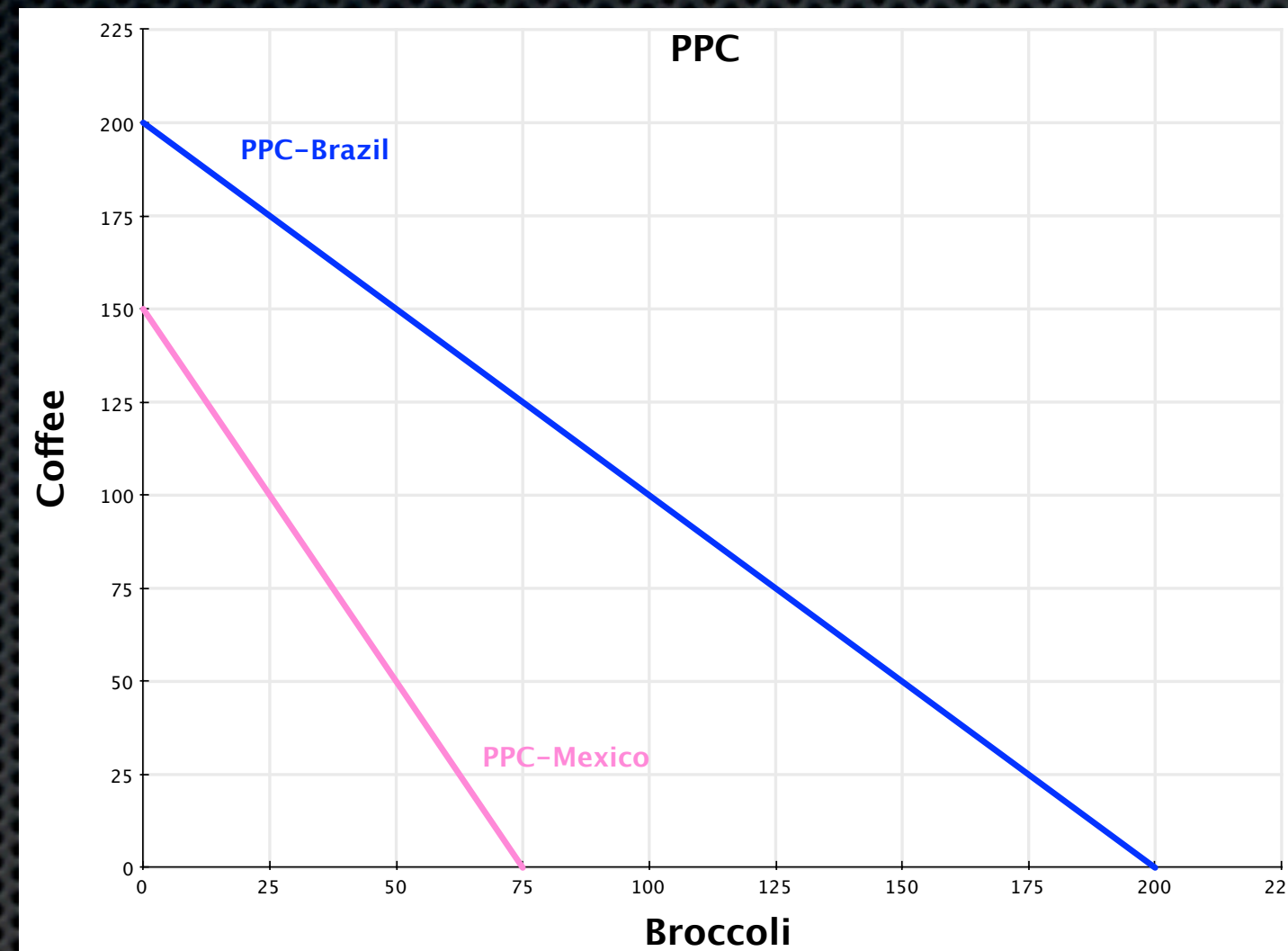




Brazil	
Opportunity Costs	
1 coffee costs	1 broccoli costs
1 broccoli	

Mexico	
Opportunity Costs	
1 coffee costs	1 broccoli costs

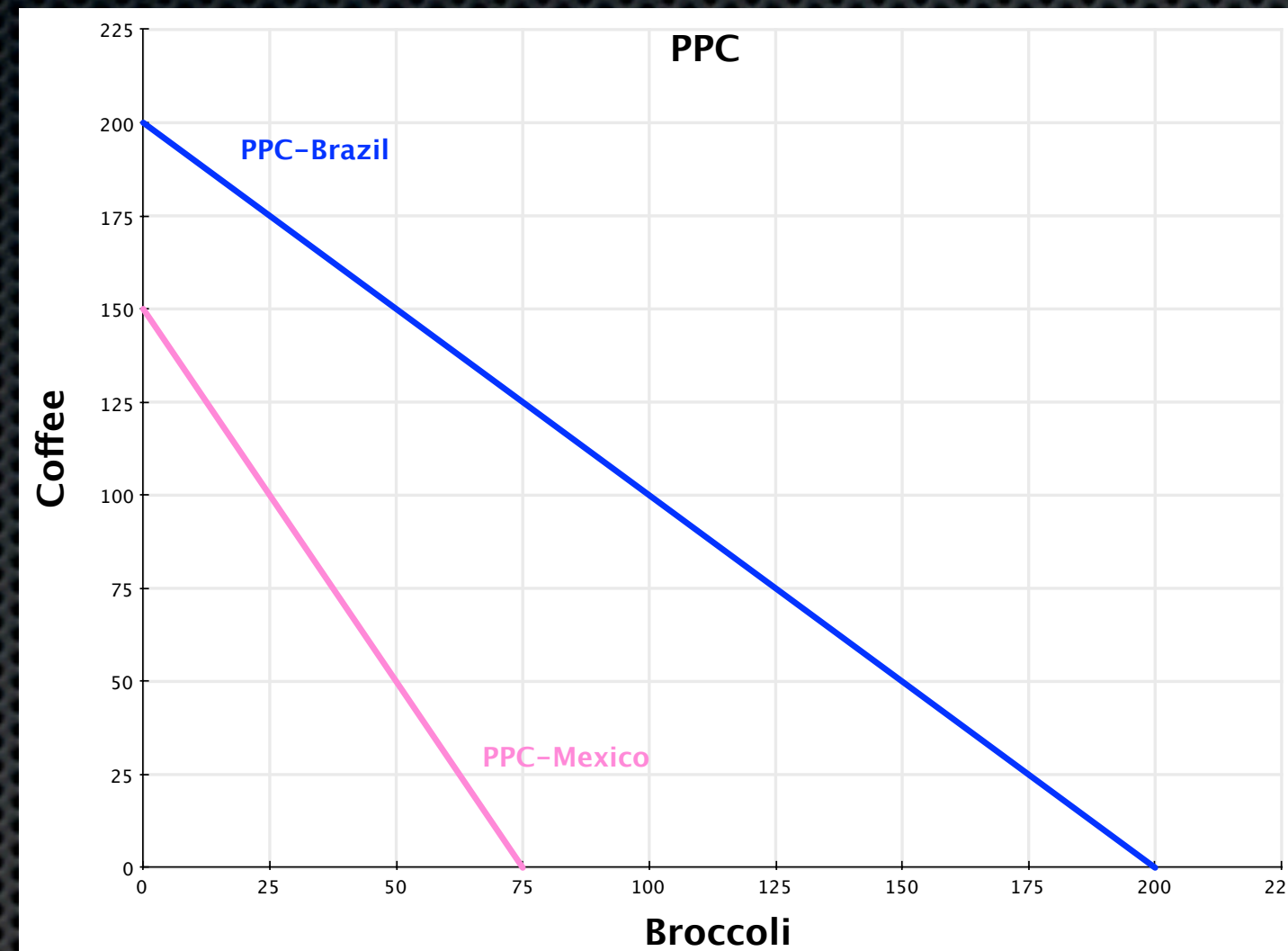




Brazil	
Opportunity Costs	
1 coffee costs	1 broccoli costs
1 broccoli	1 coffee

Mexico	
Opportunity Costs	
1 coffee costs	1 broccoli costs

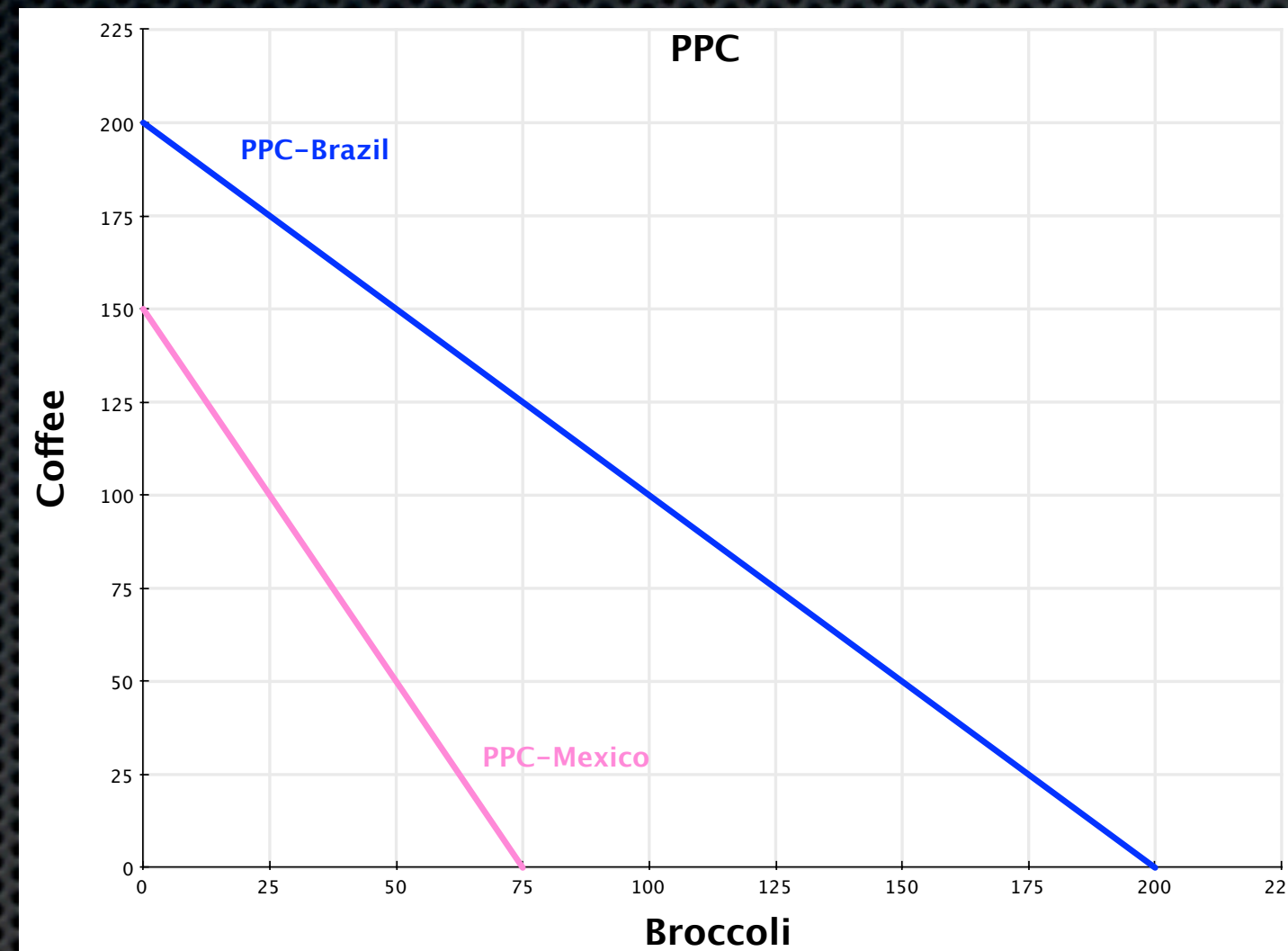




Brazil	
Opportunity Costs	
1 coffee costs	1 broccoli costs
1 broccoli	1 coffee

Mexico	
Opportunity Costs	
1 coffee costs	1 broccoli costs
.5 broccoli	





Brazil	
Opportunity Costs	
1 coffee costs	1 broccoli costs
1 broccoli	1 coffee

Mexico	
Opportunity Costs	
1 coffee costs	1 broccoli costs
.5 broccoli	2 coffee



- ✦ Mexico has the **comparative advantage** in coffee. It should specialize by only producing coffee.
- ✦ Brazil has the **comparative advantage** in broccoli. It should specialize by only producing broccoli.